



**SOLUTECK Holdings Limited**

**一創科技集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**Annual Report**

**2005**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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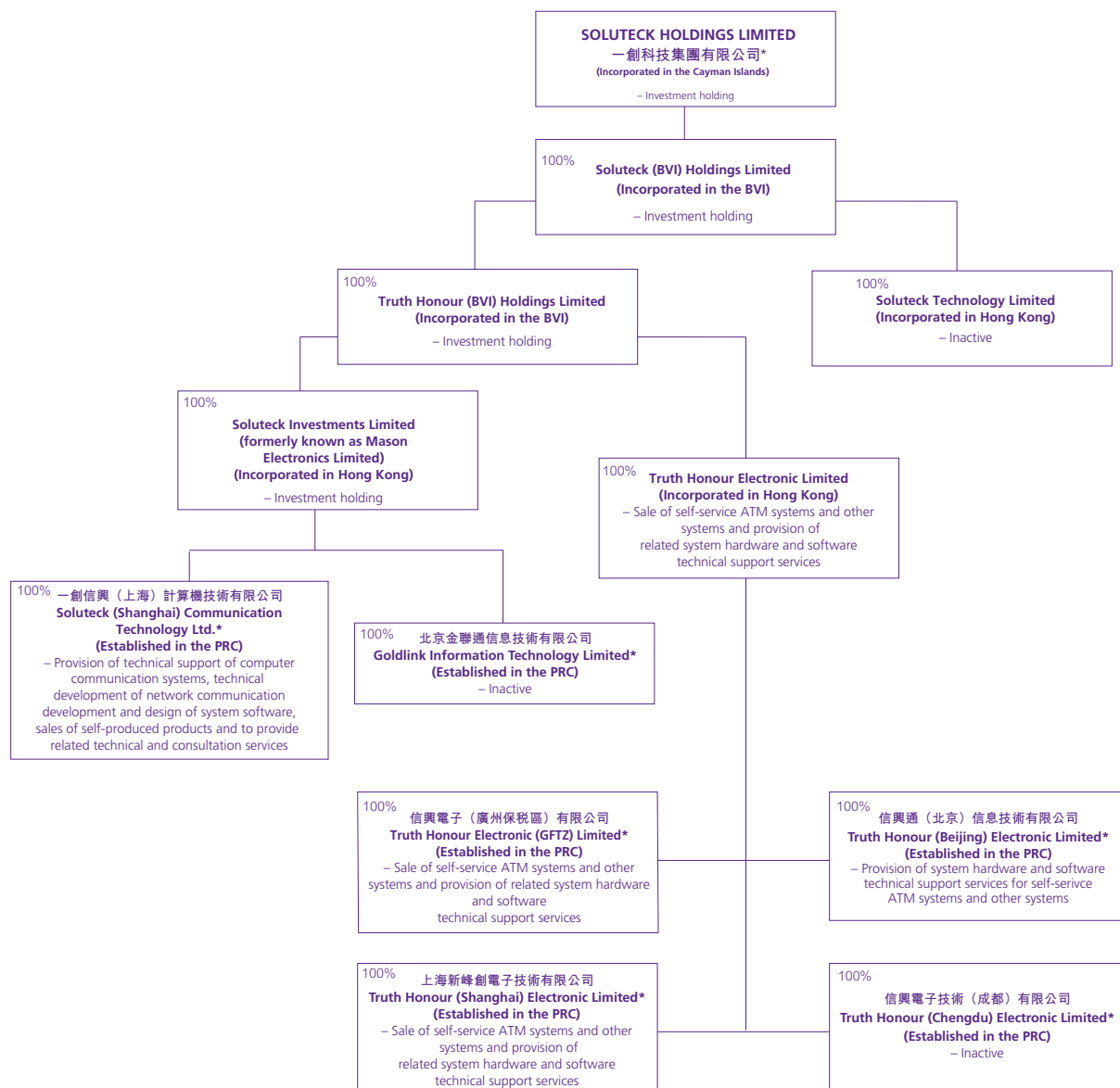
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*This report, for which the directors (the “Directors”) of Soluteck Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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## Corporate Structure

The following chart illustrates the corporate structure of the subsidiaries of the Company and their respective principal business activities:–



\* For identification purpose only

### FINANCIAL CALENDAR HIGHLIGHTS

Announcement of final results for the year	<b>17 June, 2005</b>	17 June, 2004
Book closing dates for final dividend	<b>N/A</b>	26 – 30 July, 2004
Record date for final dividend	<b>N/A</b>	30 July, 2004
Payment date for final dividend	<b>N/A</b>	6 August, 2004
Annual General Meeting for the year	<b>26 July, 2005</b>	30 July, 2004

### **ANNUAL RESULTS HIGHLIGHTS**

The net loss of the Group for the financial year ended 31 March, 2005 was approximately HK\$11.9 million, (net loss of the Group for the financial year ended 31 March, 2004 was approximately HK\$0.4 million).

The turnover of the Group for the financial year ended 31 March, 2005 was approximately HK\$67.0 million, representing a decrease of approximately 35.0 per cent. as compared to the financial year ended 31 March, 2004.

Gross profit margin of the Group was approximately 19.8 per cent. in the financial year ended 31 March, 2005, compared to approximately 23.8 per cent. in the financial year ended 31 March, 2004.

Loss per share for the financial year ended 31 March, 2005 was approximately HK2.63 cents (loss per share for the financial year ended 31 March, 2004 was approximately HK0.10 cents).

The Directors do not recommend the payment of a dividend for the financial year ended 31 March, 2005 (dividend per Share for the financial year ended 31 March, 2004 was HK\$0.005 per share).

### **BUSINESS REVIEW**

For the Group itself, the year under review is not only a year full of challenges and turbulence, but it also marked a big change for the Group. Against the non-stopping and fierce vendor competition in the market of the People's Republic of China (the "PRC" or "China"), the Group has experienced extensive but painful restructurings on its business operations and structures and has its business strategies refined during the year under review, aiming to strengthen its competitiveness and improve its operating capability and efficiency. In light of the aforesaid conditions faced by the Group, the Group will continue to strive to perfect its strategies and structures sought to reduce expenses, preserves resources and maximize profitability whenever possible.

Already as an established and leading Total Solution Providers for the finance sector in the PRC with a strong presence and clientele of reputable postal bureaus, banking and financial institutions established in China yet, apart from committing to its core business of providing implementation and upgrading of self-service automatic teller machine ("ATM") systems, related application hardware and software, technical support and consultancy services to commercial banks and postal bureaus in the PRC, the Group has also continued to dedicate more resources and efforts to the provision of technical and value-added services during the year, in order to re-position itself as a more service-oriented operations, and to provide the Group with a steady and recurrent cash-based income. On the other hand, the Group's service network in China has been strategically rebuilt. By the establishment of 一創信興(上海)計算機技術有限公司, and the opening up of new ATM service centers in Nan Chang, Yantai, Sanming, Suzhou, Dalian and Zhuhai, which has created the network to cover a total of 29 strategic cities and locations in China, a more effective channel for reaching out and fostering relationships with existing and new clients has been set up. On top of that, contracts were secured continuously with a number of financial institutions and postal bureaus for the provision of system maintenance and enhancement services and new contracts were signed with Commercial Bank, The Bank of Communications, Shanghai Pudong Development Bank and several postal bureaus during the year. It should be an encouraging result of

the Group's effort put on improving the existing maintenance service quality caused by the expansion of the service business segment, the increasing in the provision of value-added services delivered to our customers, the exploration of new business opportunity in corporate outsourcing technical service sector, and the corporate restructuring in its sales and management teams undergone during the year under review.

### **BUSINESS PROSPECTS**

The Group still adheres its belief in China, being a market with exciting prospects. Foreseeing the development in future years, the Group will, by further taking advantage on its existing prestige as an authorized value-added reseller of self-service ATM systems of NCR (Hong Kong) Limited ("NCR") and related applications software for commercial banks in China, together with the non-stopping efforts to be put on the enhancement of closer customer relationships, broadening business relationship and the exploration of new business opportunity in corporate outsourcing technical service sector, the Group is to fully committed itself to be one of the leading Total Solution Providers for the banking sector in China, offering a full range of banking and financial system solutions, from the supply of hardware to software development, banking applications to value-added complementary services. It will also keep on boosting its marketing effort in the PRC to bring in new customers and, will further expand its operations, so as to further expand market share and enhance shareholder's value.

With China's entry into the World Trade Organisation ("WTO") and being opened up to the global economic theater for years, practitioners in the industry generally expected the shaping of financial infrastructure in the PRC to align with international standards. They believe that foreign financial institutions will play an important role in the restructuring of China's financial sector, bringing with them international best practice, knowledge, expertise, systems and technologies. In turn, China will benefit in several ways – by developing a greater attention to customer service and a sound banking system. On the other hand, the executing of initial public offerings by several major banks in the PRC these years will undoubtedly spur significant reforms in the banks in the PRC, and will further help promoting the transfer of modern banking practices into China, which may lead to the greater demand for banking services, more rapid financial liberalisation, greater banking competition, and product innovation.

According to the development of China's entry into the WTO, practitioners in the industry commonly acknowledged that China's banks would be confronting with international competition by 2006. To succeed in this new competitive environment, there is a strong need for China's banks to benchmark themselves against the best domestic and international banks, so as to gear up and gird themselves for the challenges that will be posed by their sophisticated foreign competitors. The Group, with its competitive strengths in China remains, on top of its carrying of keeping abreast of all latest developments in the industry in order to consolidate existing activities and be prepared to diversify into new areas, will surely be one of the vital players and to make considerable contribution in the aforesaid evolution in China's financial infrastructure.

### **DIVIDEND**

The Board does not recommend the payment of a dividend for the financial year ended 31 March, 2005 (2004: HK\$0.005 per share).

## Letter from the Chairman

### **APPRECIATION**

#### *CHANGE IN THE BOARD DIRECTORSHIP*

Following persons were resigned during the year due to personal reasons:

- Ms. Chung Yuk Hung, a past executive director who was resigned on 10 January 2005; and
- Mr. Chung Yuk Man, a past executive director who was resigned on 1 April 2005.

The Board would like to take this opportunity to thank for the afore-mentioned persons for their valuable contributions made to the Group during the year.

The Board would also like to extend a warm welcome to Mr. Tam Kam Biu, William (“William”), who joined our Board as an Independent Non-executive Director in September 2004, William’s more than 10 years of experience in financial aspects and information technology industry would prove to be of immense value to the Group.

#### *EMPLOYEES*

As at 31 March, 2005, the Group employed 15 and 106 staff in Hong Kong and the PRC, respectively. We treasure the harmonious relationship with our staff and would like to take this opportunity to express our gratitude to the management and staff of the Group for their dedicated performance which is instrumental to the future development of the Group. We would also like to take this opportunity to thank our shareholders (the “Shareholders”), suppliers and customers for their continuous support to the Group.

**Hou Hsiao Bing**  
*Chairman*

Hong Kong, 17 June, 2005



## REVIEW OF OPERATIONS

The Group recorded a turnover of approximately HK\$67.0 million (2004: HK\$103.1 million), representing a decrease of approximately 35.0 per cent. compared with the previous year. Loss attributable to shareholders amounted to approximately HK\$11.9 million (2004: loss attributable to shareholders of approximately HK\$0.4 million), attributable to a loss per share of approximately HK2.63 cents (2004: loss per share of approximately HK0.10 cents).

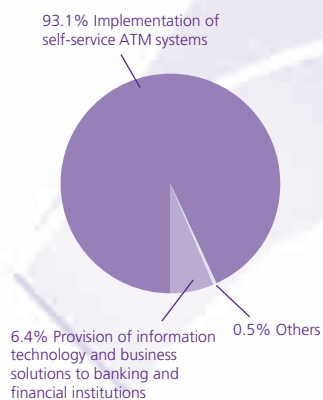
The drop in the Group's turnover was largely attributable to the Group's policy to undertake projects of higher profitability and fierce competition among suppliers of ATM systems in the People's Republic of China (the "PRC" or "China"). The Group's gross profit margin was approximately 19.8 per cent. in the financial year ended 31 March, 2005 (2004: 23.8 per cent.). The management believes that the drop of the Group's gross profit margin was mainly due to the decrease in the amount of service revenue and the keen competition among different suppliers of ATM systems in the PRC.

## REVENUE AND TURNOVER

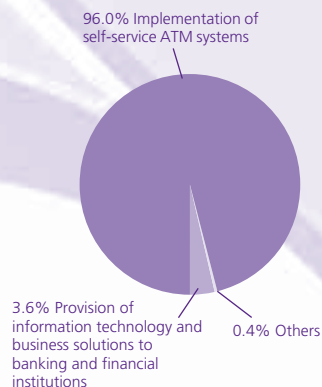
The Group is principally engaged in the sale of self-service ATM systems and other banking equipment, and the provision of hardware and software technical support services. Revenues recognized during the financial year are as follows:

	Financial year ended	
	2005	2004
	HK\$'000	HK\$'000
Turnover		
Sales of goods	<b>48,736</b>	82,726
Rendering of services	<b>18,250</b>	20,336
	<b>66,986</b>	103,062
Other revenue		
Interest income	<b>253</b>	557
	<b>67,239</b>	103,619

**Analysis of turnover by industry nature for the financial year ended 31 March, 2005**



**Analysis of turnover by industry nature for the financial year ended 31 March, 2004**



### **IMPLEMENTATION OF SELF-SERVICE ATM SYSTEMS**

During the financial year ended 31 March, 2005, implementation of self-service ATM systems remained the Group's core business and accounted for approximately 93.1 per cent. (2004: 96.0 per cent.) of the Group's total turnover, including the income derived from the provision of technical consultancy and support services.

The turnover generated from the implementation of self-service ATM systems amounted to approximately HK\$62.4 million, representing a decrease of approximately 36.9 per cent. compared with the previous financial year. Such decrease was mainly a result of the "screening out" of unprofitable projects and keen competition among suppliers of ATM systems in the PRC remained.

As an authorised value-added reseller of self-service ATM systems of NCR (Hong Kong) Limited ("NCR") and related applications software for commercial banks in China, the Group is fully committed itself as a reliable and reputable vendor and a Total Solution Provider for self-service ATM systems. With China's entry into the World Trade Organisation ("WTO"), more banks and postal bureaus in the PRC will need to offer additional services and expand their branch networks to compete with international facilities in order to operate in the market. They have to gear up to improve their information technology infrastructure and operating efficiency, so as to consolidate and strengthen their respective market standing. The Group believes that demand for the implementation of self-service ATM systems will continue to grow in China, especially with China's fast economic growth.

New contracts had been signed with the Bank of Communication, Commercial Bank, Shanghai Pudong Development Bank and postal bureaus during the financial year ended 31 March, 2005. By having ATM service centers already established in major cities in China including Ningbo, Guangxi, Hainan, Kunming, Hangzhou, Jinan, Chuanzhou, Guangzhou, Shanghai, Beijing, Chengdu, Shenyang, Qingdao, Zhengzhou, Wenzhou, Nanjing, Hefei, Xian, Chongqing, Fuzhou, Wuxi, Tianjin, and Shenzhen, and new ATM service centers opened up in Nan Chang, Yantai, Sanming, Suzhou, Dalian and Zhuhai during the year, the network of ATM services was strategically recreated and the Group has ATM service centers to cover a total of 29 strategic cities and locations currently.

### **PROVISION OF INFORMATION TECHNOLOGY AND BUSINESS SOLUTIONS**

The provision of information technology and business solutions accounted for approximately 6.4 per cent of the Group's turnover for the financial year ended 31 March 2005 (2004: 3.6 per cent). With China's fast economic growth, the Group believes that the economic activities will be fueled which in turn will create demand from banking and financial institutions in China for the Group's information technology and business solutions. The Group is already succeeded in developing software applications for converging banking business platforms and other state-of-the-art application software for banking and financial institutions and postal bureaus.

### **OTHERS**

Others include the implementation of electronic postal automation systems and the like and accounted for approximately 0.5 per cent. (2004: 0.4 per cent.) of the total turnover of the Group for the financial year ended 31 March, 2005. Since the development of electronic postal automation systems that include mailing finishing systems, volume mailing handling systems and franking machines are still greatly hindered by market competition and acceptance, the Group at this stage would not put any effort in any new development of this business stream and the aforesaid sales recorded is just from existing clients.

### **PROVISION OF TECHNICAL CONSULTANCY AND SUPPORT SERVICES**

The provision of technical consultancy and support services, which were already included in the above-mentioned businesses, contributed to a stable and recurrent source of income for the Group and accounted for approximately 27.2 per cent. (2004: 19.7 per cent.) of the total turnover of the Group for the financial year ended 31 March, 2005. Actual income derived from the provision of technical consultancy and support services decreased by approximately 10.3 per cent. mainly because of the "screening out" of unprofitable projects and keen competition among suppliers of ATM systems in the PRC.

### **INTEREST INCOME**

As a result of the decline in interest rate and bank balance for the period under review, the bank interest income of the Group declined by approximately 40.7 per cent. to approximately HK\$83,000 during the financial year ended 31 March, 2005. However, during the year, an interest income of approximately HK\$170,000 was received from a business partner on the outstanding current account balance. Therefore, the total interest income is approximately HK\$253,000.

### **GROSS PROFIT**

The Group's gross profit margin was approximately 19.8 per cent. in the financial year ended 31 March, 2005 (2004: 23.8 per cent.). Such a decline was predominantly attributable to the decrease in the amount of revenue derived from the rendering of service and the keen competition among suppliers of ATM systems in the PRC.

### **SELLING EXPENSES**

Selling expenses incurred by the Group for the financial year ended 31 March, 2005 amounted to approximately HK\$5.1 million (2004: HK\$5.8 million), representing a decrease of approximately 11.3 per cent..

### **ADMINISTRATIVE EXPENSES**

Administrative expenses incurred by the Group for the financial year ended 31 March, 2005 amounted to approximately HK\$19.1 million (2004: HK\$18.5 million), representing a slight increase of approximately 3.5 per cent..

Staff costs (including Directors emoluments) which were included in both selling expenses and administrative expenses decreased by approximately 17.1 per cent. to approximately HK\$13.7 million (2004: HK\$16.6 million) mainly because of the decrease in the number of employees from 151 to 121.

A general provision for slow moving and obsolete inventories of HK\$1.0 million (2004: Nil) has been provided for during the year under review.

Amortisation of intangible assets increased to HK\$665,000 (2004: HK\$157,000) during the financial year ended 31 March 2005 mainly because the intangible assets brought forward from last year of HK\$665,000 had been fully written off.

Loss on disposal of fixed assets of HK\$328,000 (2004: Nil) was attributable to the fixed assets written off upon the removal of office premises during the year.

Depreciation expenses increased by approximately 53.2 per cent. to HK\$616,000 (2004: HK\$402,000) as compared to that of last financial year mainly because of the addition of fixed assets during the year.

### **FINANCE COSTS**

The finance costs of the Group for the financial year ended 31 March, 2005 increased to HK\$503,000 (2004: HK\$365,000). Such an increase was mainly attributable to the increase in the use of banking facilities.

### **TAXATION**

The Group's taxation charge for the financial year ended 31 March, 2005 decreased to approximately HK\$698,000 (2004: HK\$970,000) primarily due to an increase in operating loss during the current financial year.

### **LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICIES**

The Group generally finances its operations with internally generated cash flow. As at 31 March, 2005, the Group had cash and bank balances amounting to a total of approximately HK\$8.6 million (2004: HK\$14.6 million) and had outstanding bank overdraft of approximately HK\$3.9 million (2004: HK\$1.7 million) and outstanding short-term bank loan of approximately HK\$4.8 million (2004: HK\$4.7 million) which represented the total borrowings of the Group as at that date. The bank overdraft was at 0.75% per annum over Hong Kong Dollar prime rate while the short-term loan was repayable within 1 year and at interest rate of approximately 5 per cent. over the base rate announced by the People's Bank of China.

### **CURRENT RATIO**

As at 31 March, 2005, the Group's current ratio, represented by a ratio of current assets to current liabilities, was approximately 2.7 (2004: 3.6).

### **GEARING RATIO**

As at 31 March, 2005, the gearing ratio of the Group, based on total liabilities over total assets was approximately 37.6 per cent. (2004: approximately 27.2 per cent.).

### **DIRECTORS' OPINION ON SUFFICIENCY OF WORKING CAPITAL**

In view of the Group's financial and liquidity positions and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

### **BANKING FACILITIES**

Although the Group has consistently been in a liquid position, credit facilities have nevertheless been put in place for contingency purposes. As at 31 March, 2005, the Group's banking facilities of approximately HK\$28.0 million (2004: HK\$28.4 million) are secured by the following:—

- (a) pledged deposits of approximately HK\$5.1 million (2004: HK\$8.5 million); and
- (b) corporate guarantees granted by the Company and several subsidiaries of the Group of approximately HK\$32.0 million (2004: HK\$31.0 million).

### **CHARGES ON ASSETS**

As at 31 March, 2005, the Group had an approximately HK\$28.0 million (2004: HK\$28.4 million) banking facilities with banks in Hong Kong, which were secured by a pledge of the Group's deposits of approximately HK\$5.1 million (2004: HK\$8.5 million) at the banks.

Except for the aforementioned, there are no other charges on assets.

### **CONTINGENT LIABILITIES**

As at 31 March, 2005, the Group did not have any significant contingent liabilities.

### **EXPOSURE TO FOREIGN EXCHANGE RISK**

The Group is exposed to foreign currency risk as most of its payable to hardware suppliers and accounts receivable from the PRC sales are denominated in Renminbi. Fluctuation of exchange rates of Renminbi against foreign currencies could affect the Group's results of operations.

### **EMPLOYEES**

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system.

Share options may be granted to Directors and employees of the Group to subscribe for shares in the Company. Particulars of the scheme are set out in the relevant sections of this report.

### **SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES**

The Group has a new subsidiary named 一創信興(上海)計算機技術有限公司 incorporated in Shanghai on 3 March, 2005 with registered capital US\$200,000 for the expansion of its business in service segment.

Apart from the aforesaid, there were no significant acquisitions and disposals of investments by the Group during the year under review.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company has not redeemed any of its Shares during the financial year ended 31 March, 2005. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the financial year ended 31 March, 2005.

## Corporate Information

### **Executive Directors**

Hou Hsiao Bing (*Chairman*)  
Hou Hsiao Wen  
Chung Yuk Hung (*resigned on 10 January, 2005*)  
Chung Yuk Man (*resigned on 1 April, 2005*)

### **Independent non-executive Directors**

Ho Wai Wing, Raymond  
Lui Ming, Rosita  
Tam Kam Biu, William (*appointed on 28 September, 2004*)

### **Company secretary**

Chan So Mei, ACS, ACIS

### **Members of audit committee**

Ho Wai Wing, Raymond  
Lui Ming, Rosita (*Chairperson*)  
Tam Kam Biu, William (*appointed on 28 September, 2004*)

### **Authorised representatives**

Chan So Mei, ACS, ACIS  
Chung Yuk Hung (*resigned on 4 June, 2004*)  
Chung Yuk Man (*appointed on 4 June, 2004 and resigned on 1 February, 2005*)  
Hou Hsiao Wen (*appointed on 1 February, 2005*)

### **Compliance officer**

Chung Yuk Hung (*resigned on 4 June, 2004*)  
Chung Yuk Man (*appointed on 4 June, 2004 and resigned on 1 February, 2005*)  
Hou Hsiao Wen (*appointed on 1 February, 2005*)

### **Qualified accountant**

Chan Mi Ling, Anita, FCCA, CPA

### **Registered office**

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

### **Head office and principal place of business in Hong Kong registered under Part XI of the Companies Ordinance**

Room 1104, SUP Tower  
75 King's Road  
Hong Kong

### **Company homepage/website**

[www.soluteck.com](http://www.soluteck.com)

**Principal bankers**

Standard Chartered Bank (HK) Limited  
10th Floor 4-4A  
Des Voeux Road  
Central  
Hong Kong

DBS Bank (Hong Kong) Limited  
16/F, The Center  
99 Queen's Road Central  
Central, Hong Kong

Bank of China (Hong Kong) Limited  
1 Garden Road  
Hong Kong

Bank of Communications  
Ground Floor  
67-71 King's Road  
Hong Kong

**Principal share registrar and transfer office**

Bank of Butterfield International (Cayman) Ltd.  
P.O. Box 705  
Butterfield House  
Fort Street, George Town  
Grand Cayman  
Cayman Islands  
British West Indies

**Hong Kong branch share registrar and transfer office**

Computershare Hong Kong Investor Services Limited  
46/F, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

**Auditors**

Albert Lam & Co  
25/F, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

### **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 14 to the financial statements.

An analysis of the Group's performance for the financial year by business and geographical segments is set out in note 3 to the financial statements.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the financial year are set out in the consolidated income statement on page 27.

No interim dividend have been paid or declared by the Company during the financial year. The Directors do not recommend the payment of a final dividend for the year ended 31 March, 2005 (2004: HK\$0.005 per Share).

### **RESERVES**

Movements in the reserves of the Group and the Company during the financial year are set out in note 22 to the financial statements.

### **FIXED ASSETS**

Details of the movements in fixed assets of the Group are set out in note 13 to the financial statements.

### **SHARE CAPITAL**

Details of the movements in share capital are set out in note 21 to the financial statements.

### **DISTRIBUTABLE RESERVES**

Distributable reserves of the Company as at 31 March, 2005 amounted to HK\$0.9 million (2004: HK\$4.0 million). Under Section 34 of the Companies Law (2000 Revision) of the Cayman Islands, the share premium is available for distribution to Shareholders subject to the provisions of the articles of association of the Company, and no distribution may be paid to Shareholders out of the share premium unless the Company shall be able to pay its debt as they fall due in the ordinary course of business.

### **FIVE YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 58.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company had not redeemed any of its Shares during the financial year. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the financial year.



**DIRECTORS**

The Directors during the financial year and up to the date of this report were:–

Mr. Hou Hsiao Bing ( <i>Chairman</i> )	
Mr. Hou Hsiao Wen	
Ms. Chung Yuk Hung	(resigned on 10 January, 2005)
Mr. Chung Yuk Man	(resigned on 1 April, 2005)
Mr. Ho Wai Wing, Raymond*	
Ms. Lui Ming, Rosita*	
Mr. Tam Kam Biu, William*	(appointed on 28 September, 2004)

\* *Independent non-executive Directors*

In accordance with Articles 108(A) and 112 of the Company's Articles of Association, Mr. Hou Hsiao Bing and Mr. Tam Kam Biu, William retire as Director by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Hou Hsiao Bing is an executive Director while Mr. Tam Kam Biu, William is an independent non-executive Directors who was appointed for a term of two years expired on 27 September, 2006.

**BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP****EXECUTIVE DIRECTORS**

**HOU Hsiao Bing**, aged 50, the elder brother of Hou Hsiao Wen, has been appointed as the Chairman of the Group on 5 August, 2002. He is currently responsible for the business development, finance and administration and formulation and implementation of operation policies of the Group. Prior to joining the Group in April 2000, Mr. Hou was the Managing Director of a private company focusing on selling satellite TV products network in the PRC. He has more than 24 years' experience in China businesses. Mr. Hou graduated from The Hong Kong Polytechnic University with a Diploma in Marketing.

**HOU Hsiao Wen**, aged 45, is the Compliance Officer and the Director of Sales and Marketing of the Group and is responsible for the overall sales and marketing of the Group. Mr. Hou has over 18 years' experience in the information technology industry in the PRC. Mr. Hou holds a Bachelor of Science degree in Information System from the Ohio State University in the United States ("U.S."). Prior to joining the Group in January 2000, he was the Managing Director of a private company principally engaged in providing satellite TV network solutions in the PRC. Mr. Hou is the younger brother of Hou Hsiao Bing.

**CHUNG Yuk Hung**, aged 44, is appointed as the Director of Finance and Administration of the Group since April 1994, and was resigned on 10 January, 2005 owing to personal reasons. Before her said resignation, Ms. Chung is responsible for the overall finance and administration and formulation and implementation of operation policies for the Group. Ms. Chung holds a Bachelor degree of Science in Computer Science and Mathematics from the University of Oregon in the U.S. Ms. Chung has over 14 years' PRC experience in information technology industry and nine years' Hong Kong and PRC experience in finance and administration. Ms. Chung is the elder sister of Mr. Chung Yuk Man.

**CHUNG Yuk Man**, aged 36, is previously the Director of Information Technology of the Group overseeing the technological development of hardware and software. He joined the Group in July 1995 and was resigned on 1 April 2005 owing to personal reasons. Mr. Chung has broad experience in information technology and is specialised in software development. Mr. Chung holds a Bachelor degree in Electrical Engineering from the University of Ottawa in Canada. Prior to joining the Group, Mr. Chung worked in a leading software consulting firm in Canada for three years. Mr. Chung is the younger brother of Chung Yuk Hung.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**HO Wai Wing, Raymond**, aged 42, was appointed as an Independent Non-Executive Director in August 2000. Mr. Ho holds a Bachelor of Arts degree from the University of Hong Kong and a Master of Business Administration degree from University of East Asia in Macau. Mr. Ho is currently a marketing head of a telecommunication company in Hong Kong. Mr. Ho has 19 years' experience in sales and marketing in Hong Kong and Asia.

**LUI Ming, Rosita**, aged 41, was appointed as an Independent Non-Executive Director in August 2000. Ms. Lui earned her Bachelor degree in Economics and Finance from the University of Oregon in the U.S. and a Master of Business Administration degree from the University of Queensland in Australia. While living in Australia, Ms. Lui joined Andersen Consulting as a strategy consultant. She is working for a multinational petroleum company in Hong Kong for approximately twelve years. Her expertise is in business development, sales and marketing.

**TAM Kam Bui, William**, aged 48, is an Associate member of the Hong Kong Institute of Certified Public Accountants (Formerly known as "the Hong Kong Society of Accountants") since 1987 and an Associate member of the Association of Chartered Certified Accountants since 1988. He graduated from the York University of Canada and holds a Master Degree of Business Administration major in finance and a Bachelor Degree of Business Administration major in Accounting. He has got more than 10 years experience taking the positions as Chief Financial Officer in a number of large listed companies and is currently an executive director of Q9 Technology Holdings Limited, a GEM board listed company and Viagold Capital Limited, a company listed in the Australia Stock Exchange.

Saved as disclosed above, none of the above-mentioned directors have any relationship with the directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company.

The Board has also confirmed that it has received the annual confirmation by each of the aforesaid three Independent Non-Executive Directors confirming their independence pursuant to Rule 5.09 of the GEM Listing Rules and so the Board still consider each of them to be independent.

### SENIOR MANAGEMENT OF THE GROUP

**CHAN KWAI YIU, Sammy**, aged 48, was appointed as Chief Executive Officer of the Group on 8 March 2004 and was resigned on 1 January 2005 due to personal reasons. Mr. Chan holds a Bachelor of Science Degree from Luton University in UK and has pursued a series of management courses on business management and international finance. Mr. Chan has over 21 years' working experience and specialises himself in the marketing and sales discipline including 10 years' experience which has been mainly focused on the China market and was very deeply involved in setting up of some large business infrastructure and management of sales team to spread across the various regions in the major parts of China.

**CHAN Mi Ling, Anita**, aged 38, is the Chief Financial Officer and the qualified Accountant of the Group. Ms. Chan holds a Master degree in Business Administration from the University of Western Sydney in Australia and a Master degree in Accounting from Guangzhou Jinan University in the PRC. Ms. Chan is also a member of Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. Ms. Chan has over 13 years' experience in the fields of auditing, accounting and finance and have been engaged in international certified public accountant firms, Hong Kong listed companies and multinational company listed overseas. Ms. Chan joined the Group in July 2000.

**CHAN So Mei**, aged 35, is the Company Secretary of the Group. Ms. Chan holds a Bachelor degree in Business Administration from Lingnan University of Hong Kong and a Postgraduate Diploma in Corporate Administration from The Hong Kong Polytechnic University. Ms. Chan is also an associate member of both The Institute of Company Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Ms. Chan has over 9 years' working experience in the fields of cooperative administration and company secretarial and have been engaged in both practising professional firms and listed corporations. Ms. Chan joined the Group in February 2004.

### **DIRECTORS' SERVICE CONTRACTS**

Each of Messrs. Mr. Hou Hsiao Bing and Hou Hsiao Wen, both being executive Directors, and Mr. Chung Yuk Man (resigned on 1 April, 2005) and Ms. Chung Yuk Hung (resigned on 10 January, 2005), both being former executive Directors, has entered into a service contract with the Company for an initial term of three years commencing from 1 December, 2000 (which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other) with an aggregate basic annual salaries of HK\$5,295,000. The respective basic salary of these Executive Directors will be subject to an annual increment after 31 March, 2002 at the discretion of the Directors. In addition, the executive Directors are also entitled, on completion of every 12 months of service, to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 15 per cent. of the audited combined profits attributable to shareholders of the Company (after payment of such management bonuses) in respect of that financial year of the Company.

The independent non-executive Directors have been appointed for a term expired on 30 November, 2004 and have been reappointed for a further term of 1 year renewable automatically for successive term of 1 year each commencing from the next day after the expiry of the then current term of the aforesaid appointment (except Mr. Tam Kam Biu, William who has been appointed for a term expired on 27 September 2006). Save for Directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as disclosed herein, there are no existing or proposed service contracts with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## CONNECTED TRANSACTIONS

During the year, the Group has entered into the following connected transactions which are required to be disclosed pursuant to Chapter 20 of the GEM Listing Rules:–

	Notes	Financial year ended	
		2005	2004
		HK\$'000	HK\$'000
Rental paid to Directors	(1)	127	325
Rental paid to the related companies	(2)	406	617

- (1) The Group leased an office premise from Mr. Hou Hsiao Wen (an executive Director of the Company) and Ms. Chung Yuk Hung (a former executive Director resigned on 10 January, 2005), in Beijing of the PRC for the Group's use.
- (2) The Group leased office premises from San Yee Investment Limited ("San Yee") and Dynatek Limited ("Dynatek") in Hong Kong at an annual rental of HK\$301,200 (2004: HK\$558,000) and from Ms. Tsou Lo Nien and Ms. Chung Po Chu in Shanghai, the PRC, at an annual rental of HK\$104,700 (2004: HK\$58,800) for the Group's use. San Yee is owned by Mr. Chung Lok Fai and his wife, Ms. Tsou Lo Nien. Dynatek is owned by Mr. Hou Chung and Ms. Chung Po Chu. Mr. Chung Lok Fai was a former Director and shareholder of the Company. Mr. Hou Chung, Ms. Chung Po Chu and Ms. Tsou Lo Nien are shareholders of the Company.

In the opinion of the Directors, the above connected transactions were carried out in the ordinary course of business and in accordance with the terms of the underlying agreements. The independent non-executive Directors confirm that they have reviewed the lease agreements between the Group and certain connected persons, and that the connected transactions have been carried out in accordance with their respective terms.

Save as disclosed in the section headed "Directors' service contracts" and the above, there is no other connected transactions.

The above transactions are also related party transactions as disclosed in the note 27 to the financial statements.

## DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in this report, no contracts of significance in relation to the Group's business to which the Company and its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OF THE COMPANY

As at 31 March, 2005, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules were as follows:—

Name	Name of company	Capacity	Number and class of securities (Note 1)	Percentage shareholding in the same class of securities
Mr. Hou Hsiao Bing (Executive Director)	The Company	Beneficial owner	76,460,000 ordinary shares (L)	16.89%
	The Company	Beneficial owner	2,000,000 ordinary shares (Note 2)	0.44%
Mr. Chung Yuk Man (Executive Director, resigned on 1 April, 2005)	The Company	Beneficial owner	35,190,000 ordinary shares (L)	7.77%
	The Company	Beneficial owner	2,000,000 ordinary shares (Note 2)	0.44%
	Truth Honour Electronic Limited (Note 3)	Beneficial interest	200,000 non-voting deferred shares of HK\$1 each (L)	6.67%
Mr. Hou Hsiao Wen (Executive Director)	The Company	Beneficial owner	33,160,000 ordinary shares (L)	7.33%
	The Company	Beneficial owner	2,000,000 ordinary shares (Note 2)	0.44%

Notes:–

1. The letter “L” represents the Director’s interests in the shares and underlying shares of the Company or its associated corporations.
2. These shares were the respective number of shares which would be allotted and issued upon exercise in full of the options granted to each of the Company’s Executive Directors namely Mr. Hou Hsiao Bing and Mr. Hou Hsiao Wen, and the former Executive Directors Ms. Chung Yuk Hung and Mr. Chung Yuk Man pursuant to the share option scheme of the Company adopted on 13 December 2000. The exercise period and the exercise price of these options are set out in the section headed “Share Option Scheme” below.
3. Truth Honour Electronic Limited is a subsidiary of the Company and is thus an associated corporation of the Company.

### SHARE OPTION SCHEME

#### 1. PRE-IPO SHARE OPTIONS

On 13 December, 2000, the shareholders of the Company approved and adopted a share option scheme (the “Share Option Scheme”). Under the Share Option Scheme, the Directors may, at their discretion, grant to any employees of the Group, including executive Directors, options to subscribe for the Shares.

The subscription price for options granted under the Share Option Scheme after the listing of the Shares on the GEM is determined by the Directors and will not be less than the higher of the closing price of the Shares on GEM on the date of grant of the options or the average of the closing price of the Shares on GEM for the five trading days immediately preceding the date of grant of the options. As regards the options granted before the listing of the Shares on the GEM (the “Pre-IPO Share Options”), the subscription price is to be determined by Directors and shall not be less than the nominal value of the Shares. The maximum number of Shares in which options may be granted under the Share Option Scheme may not exceed 30 per cent. of the ordinary share capital in issue from time to time. The maximum option term is ten years from the respective grant dates. Options may be exercised at any time during a period, generally three years but not later than ten years, to be determined and notified to each grantee.

Pursuant to the Pre-IPO Share Options granted under the above Share Option Scheme, certain Directors have interests in options to subscribe for Shares as set forth below. The options have a duration of 10 years from 18 December, 2000, which is the date on which the offer of grant was made, and therefore will be exercisable during the period from the aforesaid date to 17 December, 2010. Pursuant to the offer letters in respect of the grant of the Pre-IPO Share Options, the grantees can only exercise the

options to the extent of an aggregate total of 25 per cent., 50 per cent., 75 per cent. and 100 per cent. of the Pre-IPO Share Options in each of the first to fourth anniversaries of the commencement of the trading of the shares on GEM, respectively.

Pre-IPO Share Options	Outstanding at 1.4.2004	Number of Options		Outstanding at 31.3.2005	Closing price per share immediately before the date of grant (HK\$) <i>(Note 2)</i>
		Granted during the year	Lapsed during the year		
Exercise price at HK\$0.20:					
– Director of a subsidiary:					
LAM Shut Chun	500,000	Nil	(500,000)	Nil	Nil
– Other Employees	5,100,000	Nil	(2,700,000)	2,400,000	Nil
Exercise price at HK\$0.40:					
– Executive Directors					
HOU Hsiao Bing	2,000,000	Nil	Nil	2,000,000	Nil
CHUNG Yuk Hung	2,000,000	Nil	Nil	2,000,000	Nil
CHUNG Yuk Man	2,000,000	Nil	Nil	2,000,000	Nil
HOU Hsiao Wen	2,000,000	Nil	Nil	2,000,000	Nil
– Other Employees	2,400,000	Nil	Nil	2,400,000	Nil
	16,000,000	Nil	(3,200,000)	12,800,000	Nil

Notes:–

1. During the financial year ended 31 March, 2005, 3,200,000 share options were lapsed upon the resignation of the relevant employees of the Group.
2. As the shares of the Company were listed in the GEM of the Stock Exchange of Hong Kong Limited not earlier than the date of 3 January, 2001, no closing price per share of the Pre-IPO Share Options could be calculated.

The share options are not recognised in the financial statements until they are exercised. No share option was granted and exercised during the year ended 31 March, 2005.

### 2. NEW SHARE OPTION SCHEME ADOPTED AS AT 30 JULY, 2004

The Company has adopted a new share option scheme ("New Scheme") and terminated the Share Option Scheme by shareholders' resolutions passed at its Annual General Meeting held on 30 July, 2004. The New Scheme became effective on 30 July, 2004. Upon the termination of the Share Option Scheme on 30 July 2004, no further options may be offered under the Share Option Scheme but the Share Option Scheme would in all respects remain in force to the extent necessary to give effect to the exercise of the outstanding Pre-IPO Share Options granted under it prior to its termination. The outstanding Pre-IPO Share Options will continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme. No option shares have been granted under the New Scheme to any person since its adoption.

Apart from the foregoing, at no time during the year was the Company, or its subsidiaries a party to any arrangements to enable the Company's Directors or chief executive or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

As at 31 March, 2005, the following persons, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:—

Name	Number of ordinary shares	Capacity	Approximate percentage of interest
Ms. Chung Yuk Hung, Yvonne	35,190,000	Beneficial owner	7.77%

Save as disclosed above, as at 31 March, 2005, no person or entity other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### PENSION SCHEME ARRANGEMENT

The Company and subsidiaries incorporated/operate in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") set up pursuant to the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the Pension Scheme.



Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contribution upon their retirement at the age of 65 years old, death or total incapacity.

The assets of the MPF Scheme are held separately from those of the Group in an independently administrated fund. The employer's contributions vest fully with the employees when contributed to the MPF Scheme, except for the portion of voluntary contributions made by the employer, which will be refunded to the Group when the employees cease employment prior to vesting fully in the contributions, in accordance with the rules of the MPF Scheme.

The subsidiaries operating in the People's Republic of China (the "PRC") are required to participate in defined contribution retirement schemes, organised by relevant local government authorities. The subsidiaries are required to make contributions to the retirement schemes, at a rate of 11.0 per cent. to 22.5 per cent. of the basic salary of their employees and there is no other future obligations to the Group towards the employees' retirement benefits.

### **MAJOR CUSTOMERS AND SUPPLIERS**

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:–

#### **PURCHASES**

- the largest supplier : Approximately 96.3 per cent.
- five largest suppliers in aggregate : Approximately 97.6 per cent.

#### **SALES**

- the largest customer : Approximately 43.6 per cent.
- five largest customers in aggregate : Approximately 95.0 per cent.

None of the Directors or their respective associates (as defined in the GEM Listing Rules) or shareholders which to the knowledge of the Directors, owns more than 5 per cent. of the Company's issued share capital had any interest in the major suppliers or customers noted above.

### **BOARD PRACTICES AND PROCEDURES**

Throughout the year, the Company has complied with the minimum standards of good practice concerning the general management responsibilities of the board as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Articles of Association, although there are no restrictions against such rights under the laws in the Cayman Islands.

### **DISCLOSURE OF TRADING BALANCE ARISING FROM SALES TRANSACTIONS CONDUCTED BY THE GROUP IN ITS ORDINARY COURSE OF BUSINESS**

The following disclosure is made in accordance with the requirements under Rules 17.15 and 17.22 of the GEM Listing Rules:–

At at 24 January, 2005, Zhejiang Postal Bureau, a customer of the Group and a third party independent of any of the Directors, the chief executive of the Group, the substantial shareholders (within the meaning of the GEM Listing Rules) of the Company, the management shareholders (within the meaning of the GEM Listing Rules) of the Company and their respective associates (within the meaning of the GEM Listing Rules) (the “Independent Third Party”), has a trading balance with a subsidiary of the Company (together with the Company, the “Group”) of approximately RMB10.6 million (equivalent to approximately HK\$10.0 million). Such trading balance is resulted from sales to Zhejiang Postal Bureau by the Group in its ordinary course of business and on normal commercial terms.

The trading balance with the above customer of the Group as at 24 January, 2005 represents more than 8 per cent. of the total assets (within the meaning of note 2 to Rule 17.14 of the GEM Listing Rules) of the Group of approximately HK\$62.8 million as at 31 March, 2004.

The above-mentioned trading balance is unsecured and repayable in accordance with the credit terms as agreed with the relevant customers. As at 31 March, 2005, Zhejiang Postal Bureau settled approximately RMB9.7 million (equivalent to approximately HK\$9.1 million) in accordance with the relevant terms of the sales transactions. As at 31 March, 2005, the trading balance with Zhejiang Postal Bureau was approximately RMB0.9 million (equivalent to HK\$0.9 million). No collateral is required to be made by Zhejiang Postal Bureau and no interest is charged on the aforesaid balance.

The Directors confirm that apart from the amount disclosed herein, the Group does not make any advancement to any entity that are required to be disclosed under Rules 17.15 and 17.22 of the GEM Listing Rules.

### **AUDIT COMMITTEE**

The Company’s Audit Committee was formed on 13 December, 2000. The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with Reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee of the Board provides an important link between the Board and the Company’s auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises three independent non-executive Directors, namely Ms. Lui Ming, Rosita, Mr. Ho Wai Wing, Raymond and Mr. Tam Kam Biu, William. Four Meetings were held during the current financial year. This report has been reviewed and approved by the Audit Committee of the Board.

### **DIRECTORS' INTEREST IN COMPETING BUSINESS**

Mr. Tam Kam Biu, William, an Independent non-executive director of the Company, is an Executive Director of Q9 Technology Holding Limited ("Q9 Technology"). As Q9 Technology is also a Company which is engaged in business related to research and development of information technology, Q9 Technology may be in competition with the Group.

Save as disclosed above, none of the Directors or management shareholders (as defined in the GEM Listing Rules) of the Company has an interest in a business which complete or may complete with the business of the Group.

### **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of the Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

### **AUDITORS**

The financial statements have been audited by Albert Lam & Co. who was appointed as auditors of the Company on 1 March 2005 to fill the causal vacancy following the resignation of PricewaterhouseCoopers on 1 March 2005. In accordance with the articles of association of the Company, Albert Lam & Co. will retire in the forthcoming annual general meeting and the Board will propose in the forthcoming annual general meeting to re-appoint Albert Lam & Co. as auditors to hold office until the conclusion of the annual general meeting which to be held after the forthcoming annual general meeting.

On behalf of the Board

**Hou Hsiao Bing**

*Chairman*

Hong Kong, 17 June, 2005

# Albert Lam & Co.

CERTIFIED PUBLIC ACCOUNTANTS

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林聞深會計師事務所  
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香港德輔道中六十八號  
萬宜大廈二十五樓

## To the shareholders of Soluteck Holdings Limited

*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 27 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and Group as at 31 March 2005 and of the Group's loss and cash flow for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Albert Lam & Co.**

*Certified Public Accountants*

Hong Kong, 17 June 2005

## Consolidated Income Statement

Year ended 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
Turnover	3	<b>66,986</b>	103,062
Cost of sales		<b>(53,703)</b>	(78,490)
Gross profit		<b>13,283</b>	24,572
Other revenue	3	<b>253</b>	557
Selling expenses		<b>(5,118)</b>	(5,773)
Administrative expenses		<b>(19,103)</b>	(18,458)
Operating (loss)/profit	4	<b>(10,685)</b>	898
Finance costs	5	<b>(503)</b>	(365)
(Loss)/profit before taxation		<b>(11,188)</b>	533
Taxation	6	<b>(698)</b>	(970)
Loss attributable to shareholders	7	<b>(11,886)</b>	(437)
Dividends	8	–	2,263
Basic loss per share	9	<b>(2.63 cents)</b>	(0.10 cents)

## Consolidated Balance Sheet

As at 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>			
Intangible assets	12	–	665
Fixed assets	13	839	1,267
Investment securities	15	–	–
		<b>839</b>	1,932
<b>Current assets</b>			
Inventories	16	14,329	7,638
Accounts receivable	17	20,034	25,200
Other receivables, deposits and prepayments		6,840	13,495
Pledged bank deposits	24	5,107	8,500
Bank balances and cash	19	3,451	6,072
		<b>49,761</b>	60,905
<b>Current liabilities</b>			
Accounts payable	18	4,532	3,356
Other payables and accruals		2,608	3,675
Receipt in advance		2,350	3,041
Taxation payable		280	234
Bank overdrafts		3,898	1,717
Short-term bank loans, secured		4,806	4,709
		<b>18,474</b>	16,732
<b>Net current assets</b>		<b>31,287</b>	44,173
<b>Total assets less current liabilities</b>		<b>32,126</b>	46,105
<b>Non-current liabilities</b>			
Deferred tax liabilities	20	539	382
<b>Net assets</b>		<b>31,587</b>	45,723
Share capital	21	45,261	45,261
Reserves	22(a)	(13,674)	(1,801)
Proposed final dividend	22(a)	–	2,263
Shareholders' funds		<b>31,587</b>	45,723

On behalf of the Board

**Hou Hsiao Bing**  
Director

**Hou Hsiao Wen**  
Director

## Balance Sheet

As at 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	14	47,134	50,322
<b>Current assets</b>			
Other receivables, deposits and prepayments		126	153
Bank balances and cash		53	159
		179	312
<b>Current liabilities</b>			
Other payables and accruals		1,144	1,352
<b>Net current liabilities</b>			
		(965)	(1,040)
<b>Net assets</b>			
		46,169	49,282
Share capital	21	45,261	45,261
Reserves	22(b)	908	1,758
Proposed final dividend	22(b)	–	2,263
Shareholders' funds		46,169	49,282

On behalf of the Board

**Hou Hsiao Bing**  
Director

**Hou Hsiao Wen**  
Director

## Consolidated Statement of Changes in Equity

Year ended 31 March 2005

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Total equity as at 1 April	<b>45,723</b>	50,686
Exchange differences arising on translation of the financial statements of foreign subsidiaries	<b>13</b>	–
Loss for the year	<b>(11,886)</b>	(437)
Dividends	<b>(2,263)</b>	(4,526)
Total equity as at 31 March	<b>31,587</b>	45,723



## Consolidated Cash Flow Statement

Year ended 31 March 2005

	Note	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
<b>Operating activities</b>			
Net cash outflow from operations	23(a)	<b>(4,781)</b>	(12,743)
Interest paid		<b>(503)</b>	(365)
Hong Kong profits tax refund		–	850
Overseas taxation paid		<b>(495)</b>	(511)
<b>Net cash outflow from operating activities</b>		<b>(5,779)</b>	(12,769)
<b>Investing activities</b>			
Purchase of fixed assets		<b>(516)</b>	(322)
Sale of fixed assets		–	16
Interest received		<b>253</b>	557
Decrease/(increase) in pledged bank deposits		<b>3,393</b>	(1,500)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>3,130</b>	(1,249)
<b>Financing activities</b>			
New bank loan drawn down	23(b)	<b>15,172</b>	4,701
Repayment of amounts borrowed	23(b)	<b>(15,075)</b>	(3,761)
Dividends paid		<b>(2,263)</b>	(4,526)
<b>Net cash outflow from financing activities</b>		<b>(2,166)</b>	(3,586)
Net decrease in cash and cash equivalents		<b>(4,815)</b>	(17,604)
Cash and cash equivalents at 1 April		<b>4,355</b>	21,959
Effect of foreign exchange rate changes		<b>13</b>	–
<b>Cash and cash equivalents at 31 March</b>		<b>(447)</b>	4,355
<b>Analysis of balances of cash and cash equivalents</b>			
Bank balances and cash		<b>3,451</b>	6,072
Bank overdrafts		<b>(3,898)</b>	(1,717)
		<b>(447)</b>	4,355

# Notes to the Financial Statements

Year ended 31 March 2005

## 1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:–

### (A) BASIS OF PREPARATION

The financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention.

### (B) BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March 2005. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company’s balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (C) REVENUE RECOGNITION

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from the provision of technical support services is recognised when the services are rendered. The unrecognised portion is recorded as receipt in advance when deposits and instalment payments are received.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

**1. PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(D) FIXED ASSETS**

Fixed assets, comprising leasehold improvements, office equipment, furniture and fixtures and motor vehicles, are stated as cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situation where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:–

Leasehold improvements	20%
Office equipment, furniture and fixtures	20%
Motor vehicles	20%

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

**(E) INVENTORIES**

Inventories, comprising merchandise and spare parts, are stated at the lower of cost and net realizable value. Cost, calculated on the first-in, first-out basis, comprises cost of purchases. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**(F) ACCOUNTS RECEIVABLE**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

# Notes to the Financial Statements

Year ended 31 March 2005

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (G) CASH AND CASH EQUIVALENTS

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of balance sheet, cash and cash equivalents comprise cash on hand and at bank, including term deposits, which are not restricted as to use.

### (H) EMPLOYEE BENEFITS

#### (i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) Pension obligations

The Company and subsidiaries incorporated/operated in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") set up pursuant to the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the Pension Scheme.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contribution upon their retirement at the age of 65 years old, death or total incapacity.

The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The employer's contributions vest fully with the employees when they are contributed to the MPF Scheme, except for the portion of voluntary contributions made by the employer, which will be refunded to the Group when the employees cease employment prior to vesting fully in the contributions, in accordance with the rules of the MPF Scheme.

**1. PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(H) EMPLOYEE BENEFITS** *(Continued)**(ii) Pension obligations (Continued)*

The subsidiaries operating in the People's Republic of China (the "PRC") are required to participate in defined contribution retirement schemes, organised by the relevant local government authorities. The subsidiaries are required to make contributions to the retirement schemes, at a rate of 11.0 per cent. to 22.5 per cent. of the basic salary of their employees and there will be no other future obligations of the Group towards the employees' retirement benefits.

**(I) DEFERRED TAXATION**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

**(J) OPERATING LEASES**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

**(K) INTANGIBLE ASSETS***(i) Goodwill/negative goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisition occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life, while the amount was eliminated against reserves before 1 January 2001.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

# Notes to the Financial Statements

Year ended 31 March 2005

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (K) INTANGIBLE ASSETS (Continued)

#### (i) Goodwill/negative goodwill (Continued)

For a acquisition occur after 1 January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectation of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

For acquisition prior to 1 January 2001, negative goodwill was taken directly to capital reserve. The Group has taken the advantage of the transitional provisions under SSAP 30 that such negative goodwill has not been restated.

The gain or loss on disposal of an acquired entity is determined after taking into account the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 January 2001 acquisition, the related goodwill or negative goodwill written off against or charged to reserves to the extent it has not previously been realised in the income statement.

#### (ii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense will not be recognised as an asset in a subsequent period.

#### (iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

**1. PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(L) INVESTMENT SECURITIES**

Investment securities are stated at cost less any provision for impairment losses.

The carrying amount of individual investment is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

**(M) CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**(N) BORROWING COSTS**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

# Notes to the Financial Statements

Year ended 31 March 2005

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (O) TRANSLATION OF FOREIGN CURRENCIES

The Group adopts Hong Kong dollars as its financial statements reporting currency. Transactions in foreign currencies are translated to Hong Kong dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated to Hong Kong dollars at rates of exchange ruling at the balance sheet date ("closing rate"). Exchange differences arising in these cases are dealt with in the income statement.

The balance sheet of subsidiaries outside Hong Kong expressed in currencies other than Hong Kong dollars are translated to Hong Kong dollars at closing rate whilst the income statement is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### (P) SEGMENT REPORTING

In accordance with the Group's internal financial reporting structure, the Group has determined that business segments be presented as the primary reporting format and geographical segment as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets (Note 12) and fixed assets (Note 13).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the operating results of the Group are attributable to markets outside the PRC.

### (Q) DIVIDENDS

Dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date.

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are presented. These new HKFRSs may result in changes in the future as to how the results and financial position are presented.



## Notes to the Financial Statements

Year ended 31 March 2005

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the sale of self-service ATM systems and other systems, and the provision of hardware and software technical support services. Revenues recognised during the year are as follows:–

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Turnover		
Sale of goods	<b>48,736</b>	82,726
Rendering of services	<b>18,250</b>	20,336
	<b>66,986</b>	103,062
Other revenue		
Interest Income	<b>253</b>	557
	<b>253</b>	557
Total revenue	<b>67,239</b>	103,619

Primary reporting format – business segments

The Group is organized into two main business segments:–

- i. Sales of goods – sale of self-service ATM systems and other systems
- ii. Rendering of services – provision of hardware and software technical support services

## Notes to the Financial Statements

Year ended 31 March 2005

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments

	Sale of goods 2005 HK\$'000	Rendering of services 2005 HK\$'000	Group 2005 HK\$'000
Turnover	48,736	18,250	66,986
Segment results	(237)	3,464	3,227
Other revenue			253
Unallocated costs			(14,165)
Operating loss			(10,685)
Finance costs			(503)
Loss before taxation			(11,188)
Taxation			(698)
Loss attributable to shareholders			(11,886)
Segment assets	24,738	10,132	34,870
Unallocated assets			15,730
Total assets			50,600
Segment liabilities	4,532	2,481	7,013
Unallocated liabilities			12,000
Total liabilities			19,013
Capital expenditure	–	411	411
Unallocated capital expenditure			105
			516
Depreciation	–	226	226
Unallocated depreciation			390
			616
Other non-cash expenses			2,392

## Notes to the Financial Statements

Year ended 31 March 2005

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments

	<b>Sale of goods</b> <b>2004</b> <i>HK\$'000</i>	<b>Rendering</b> <b>of services</b> <b>2004</b> <i>HK\$'000</i>	<b>Group</b> <b>2004</b> <i>HK\$'000</i>
Turnover	82,726	20,336	103,062
Segment results	4,682	11,250	15,932
Other revenue			557
Unallocated costs			(15,591)
Operating profit			898
Finance costs			(365)
Profit before taxation			533
Taxation			(970)
Loss attributable to shareholders			(437)
Segment assets	24,109	11,663	35,772
Unallocated assets			27,065
Total assets			62,837
Segment liabilities	3,356	3,575	6,931
Unallocated liabilities			10,183
Total liabilities			17,114
Capital expenditure	–	31	31
Unallocated capital expenditure			291
			322
Depreciation	–	138	138
Unallocated depreciation			264
			402
Other non-cash expenses			279

## Notes to the Financial Statements

Year ended 31 March 2005

### 4. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after crediting and charging the following:–

	Group	
	2005	2004
	HK\$'000	HK\$'000
Crediting		
Write-back of over provision of deferred income	–	2,937
Charging		
Auditors' remuneration	171	419
Amortisation of intangible assets	665	157
Cost of inventories	44,484	72,270
Depreciation	616	402
Loss on disposal of fixed assets	328	–
Net exchange loss	11	50
Operating leases for land and building	1,259	1,597
Provision for bad and doubtful debts	446	100
Provision for slow moving and obsolete inventories	1,000	–
Bad debts written off	281	22
Research and development costs	1,689	2,908
Staff costs (including directors' emoluments) (Note 10)	13,731	16,573

### 5. FINANCE COSTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	503	365

**6. TAXATION**

There was no provision for Hong Kong profits tax as the Group has no assessable profit for the year (2004: Nil).

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which the subsidiaries of the Group operate.

The amount of taxation charged to the consolidated income statement represents:-

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Current taxation		
– Hong Kong profits tax	–	–
– Overseas taxation	<b>451</b>	588
– Under provision in prior years	<b>90</b>	–
Deferred taxation (Note 20)	<b>157</b>	382
Taxation charge	<b>698</b>	970

The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:-

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
(Loss)/profit before taxation	<b>(11,188)</b>	533
Calculated at a taxation rate of 17.5%	<b>(1,958)</b>	93
Effect of difference taxation rates in other countries	<b>(346)</b>	(54)
Income not subject to taxation	<b>(12)</b>	(1,843)
Expenses not deductible for taxation purposes	<b>406</b>	1,585
Tax losses not recognized	<b>2,371</b>	1,096
Under provision in prior years	<b>90</b>	–
Others	<b>147</b>	93
Taxation charge	<b>698</b>	970

## Notes to the Financial Statements

Year ended 31 March 2005

### 7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of a loss of HK\$850,000 (2004: Profit of HK\$2,504,000).

### 8. DIVIDENDS

	Group	
	2005	2004
	HK\$'000	HK\$'000
No dividend proposed for the year (2004: Final dividend of HK\$0.005 proposed per ordinary share)	–	2,263

At a meeting held on 17 June 2004, the directors declared a final dividend of 0.5 cents per ordinary share. This proposed dividend has not been reflected as dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2005.

### 9. BASIC LOSS PER SHARE

The calculation of basic loss per share are based on the Group's loss attributable to shareholders of HK\$11,886,000 (2004: loss of HK\$437,000) and 452,612,072 (2004: 452,612,072) ordinary shares in issue during the year.

No diluted loss per share for the years ended 31 March 2005 and 2004 is presented as the exercise of the outstanding options of the Company would have an anti-dilutive effect.

### 10. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2005	2004
	HK\$'000	HK\$'000
Wages and salaries	12,449	15,466
Termination benefits	693	483
Pension costs – defined contribution plans	589	624
	13,731	16,573

**11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS****(A) DIRECTORS' EMOLUMENTS**

Emoluments of the directors of the Company during the year are as follows:–

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Independent non-executive directors		
Fees	150	120
Basic salaries, allowances and benefits in kind	–	–
Executive directors		
Fees	–	–
Basic salaries, allowances and benefits in kind	2,649	5,295
Termination benefits	237	–
Contribution to pensions schemes	46	48
	<b>3,082</b>	5,463

The four executive directors (2004: four executive directors) received individual emoluments for the year ended 31 March 2005 of HK\$755,677 (2004: HK\$1,392,260), HK\$770,240 (2004: HK\$1,347,130), HK\$704,000 (2004: HK\$1,302,000) and HK\$702,000 (2004: HK\$1,302,000) respectively.

Please also refer to Note 21 for details of options granted to executive Directors.

**(B) FIVE HIGHEST PAID INDIVIDUALS**

The five individuals whose emoluments were the highest in the Group for the year include four (2004: four) directors whose emoluments have been disclosed in the preceding paragraph. The emoluments payable to the remaining one (2004: one) individual during the year are as follows:–

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Basic salaries, allowances and benefits in kind	603	1,080

The emoluments fell with the following bands:–

	Number of individuals	
	2005	2004
Emoluments bands:		
Nil – HK\$1,000,000	1	–
HK\$1,000,001 – HK\$1,500,000	–	1

# Notes to the Financial Statements

Year ended 31 March 2005

## 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

### (B) FIVE HIGHEST PAID INDIVIDUALS (Continued)

During the year ended 31 March 2005, no emoluments have been paid by the Group to the Directors and the highest paid individuals other than the Directors above as bonus, as inducement to join the Group or as compensation for loss of office (2004: Nil).

## 12. INTANGIBLE ASSETS

Software development costs

	2005 HK\$'000	2004 HK\$'000
At 1 April	665	822
Amortisation	(665)	(157)
At 31 March	–	665

## 13. FIXED ASSETS

	Leasehold improvements HK\$'000	Group Office equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost				
At 1 April 2004	980	5,900	340	7,220
Additions	305	211	–	516
Disposals	(399)	(47)	–	(446)
Reclassification	(30)	30	–	–
At 31 March 2005	856	6,094	340	7,290
Accumulated depreciation				
At 1 April 2004	843	4,770	340	5,953
Charge for the year	112	504	–	616
Disposals	(111)	(7)	–	(118)
Reclassification	(19)	19	–	–
At 31 March 2005	825	5,286	340	6,451
Net book value				
At 31 March 2005	31	808	–	839
At 31 March 2004	137	1,130	–	1,267



**14. INVESTMENTS IN SUBSIDIARIES**

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted investments, at cost	<b>27,826</b>	27,826
Amounts due from subsidiaries	<b>19,308</b>	22,496
	<b>47,134</b>	50,322

The amounts due from subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

The following is a list of subsidiaries as at 31 March 2005:–

Name of company	Place of incorporation/ establishment and type of legal entity	Principal activities and place of operation	Particular of issued share capital/ Registered capital	Interest held %
<b>Subsidiary held directly:</b>				
Soluteck (BVI) Holdings Limited	British Virgin Islands ("BVI"), limited liability company	Investment holding in Hong Kong	1,000 ordinary shares of US\$1 each	100
<b>Subsidiary held indirectly:</b>				
Soluteck Investments Limited (Formerly known as Mason Electronics Limited)	Hong Kong, limited liability company	Investment holding in the PRC	2 ordinary shares of HK\$1 each and 500,000 non-voting deferred shares of HK\$1 each	100
Soluteck Technology Limited	Hong Kong, limited liability company	Inactive	1,000,000 ordinary shares of HK\$1 each	100

## Notes to the Financial Statements

Year ended 31 March 2005

### 14. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and type of legal entity	Principal activities and place of operation	Particular of issued share capital/ Registered capital	Interest held %
<b>Subsidiary held indirectly: (Continued)</b>				
Truth Honour Electronic Limited	Hong Kong, limited liability company	Sale of electronic banking systems and other systems and provision of related hardware and software technical support services in Hong Kong	2 ordinary shares of HK\$1 each and 3,000,000 non-voting deferred shares of HK\$1 each	100
Truth Honour Electronic (GFTZ) Limited	PRC, limited liability company	Sale of electronic banking systems and other systems and provision of related hardware and software technical support services in the PRC	Registered capital of US\$200,000	100
Truth Honour (BVI) Holdings Limited	BVI, limited liability company	Investment holdings in Hong Kong	100 ordinary shares of US\$1 each	100
北京金聯通信息技術有限公司	PRC, limited liability company	Inactive	Registered capital of US\$150,000	100
一創信興(上海)計算機技術有限公司	PRC, limited liability company	Provision of technical support of computer communication systems, technical development of network communication, development and design of system software, sales of self-produced products and provision of related technical and consultation services	Registered capital of US\$200,000	100

## Notes to the Financial Statements

Year ended 31 March 2005

### 14. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and type of legal entity	Principal activities and place of operation	Particular of issued share capital/ Registered capital	Interest held %
<b>Subsidiary held indirectly: <i>(Continued)</i></b>				
信興通(北京)信息技術有限公司	PRC, limited liability company	Provision of hardware and software technical support services for electronic banking systems and other systems in the PRC	Registered capital of US\$150,000	100
上海新峰創電子技術有限公司	PRC, limited liability company	Sale of electronic banking systems and other systems and provision of related hardware and software technical support services in the PRC	Registered capital of US\$200,000	100
信興電子技術(成都)有限公司	PRC, limited liability company	Inactive	Registered capital of US\$150,000	100

### 15. INVESTMENT SECURITIES

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted, at cost	190	190
Less: Provision for diminution in value	(190)	(190)
	—	—

## Notes to the Financial Statements

Year ended 31 March 2005

### 16. INVENTORIES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Merchandise for re-sale	11,470	3,451
Spare parts	3,859	4,187
	15,329	7,638
Less: Provision for slow moving and obsolete inventories	(1,000)	–
	14,329	7,638

At 31 March 2005 and 2004, all inventories were stated at cost.

### 17. ACCOUNTS RECEIVABLE

The majority of the Group's turnover is on credit terms ranging from sixty to ninety days. At 31 March 2005, the ageing analysis of the accounts receivable was as follows:–

	Group	
	2005	2004
	HK\$'000	HK\$'000
Current to 60 days	10,338	18,787
61 – 90 days	2,931	1,158
Over 90 days	6,765	5,255
	20,034	25,200

### 18. ACCOUNTS PAYABLE

At 31 March 2005, the ageing analysis of the accounts payable was as follows:–

	Group	
	2005	2004
	HK\$'000	HK\$'000
Current to 60 days	3,254	2,307
61 – 90 days	10	–
Over 90 days	1,268	1,049
	4,532	3,356

**19. BANK BALANCES AND CASH**

Included in the balance was approximately HK\$1,168,000 (2004: HK\$3,578,000), representing bank deposits denominated in Renminbi placed with banks in the PRC by the Group. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

**20. DEFERRED TAXATION**

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5%.

The movement on the deferred tax liabilities account is as follows:–

	Group	
	2005 HK\$'000	2004 HK\$'000
At 1 April	382	–
Deferred taxation charged to income statement (Note 6)	157	382
At 31 March	539	382

Deferred income tax assets are recognized for tax loss carry forwards to the extent that realization of the related tax benefit through the future taxable profits is probable. The Group has unrecognized deferred tax assets of approximately HK\$3,886,000 (2004: HK\$1,503,000) relating to tax losses of approximately HK\$21,445,000 (2004: HK\$8,590,000) as at 31 March 2005. The tax losses have no expiry date.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:–

**DEFERRED TAX LIABILITIES**

	Accelerated tax depreciation		Other temporary difference		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
At 1 April	57	55	1,496	–	1,553	55
Charged to income statement	58	2	1,080	1,496	1,138	1,498
At 31 March	115	57	2,576	1,496	2,691	1,553

## Notes to the Financial Statements

Year ended 31 March 2005

### 20. DEFERRED TAXATION (Continued)

#### DEFERRED TAX ASSETS

	Provision		Tax losses		Other temporary difference		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April	-	55	57	-	1,114	-	1,171	55
Charged/(credited) to income statement	-	(55)	(57)	57	1,038	1,114	981	1,116
At 31 March	-	-	-	57	2,152	1,114	2,152	1,171
							2005 HK\$'000	2004 HK\$'000
Deferred tax assets							2,152	1,171
Deferred tax liabilities							(2,691)	(1,553)
							(539)	(382)

Deferred tax liabilities are to be recovered and settled after more than 12 months.

### 21. SHARE CAPITAL

	Authorized Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 31 March 2004 and 2005	1,000,000,000	100,000
	Issued and fully paid Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 31 March 2004 and 2005	452,612,072	45,261

**21. SHARE CAPITAL** *(Continued)***SHARE OPTIONS**

- (a) Under a share option scheme approved and adopted by the shareholders on 13 December 2000 (the "Share Option Scheme"), the Director of the Company may, at their discretion, invite full-time employees including executive directors to take up options to subscribe for shares in the Company representing up to a maximum of 30% of the shares in issue from time to time (excluding shares issued up on the exercise of options granted under the share option scheme).
- (b) On 13 December 2000, Pre-IPO share options (the "Pre-IPO share options") were granted to certain Directors of the Company and employees of the Group, respectively under the Share Option Scheme to subscribe for the shares of the Company. The exercise prices of these share options range from HK\$0.2 to HK\$0.4 per share. All options are only exercisable to the extent of an aggregate total of 25 per cent., 50 per cent., 75 per cent. and 100 per cent. of the Pre-IPO Share Options in each of the first to fourth anniversaries of the commencement of the trading of the shares of the Company on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, respectively. These options have a life of 10 years from the date on which the grant was made.
- (c) During the year, no options were granted or exercised under the Share Option Scheme, and 3,200,000 (2004:1,900,000) options were lapsed upon resignation of the relevant employees of the Group. As at 31 March 2005, options to subscribe for 12,800,000 (2004:16,000,000) shares of the Company were outstanding.
- (d) The Company has adopted a new share option scheme ("New Scheme") and terminated the Share Option Scheme by shareholders' resolutions passed at its Annual General Meeting held on 30 July 2004. The New Scheme became effective on 30 July 2004. Upon the termination of the Share Option Scheme on 30 July 2004, no further options may be offered under the Share Option Scheme but the Share Option Scheme would in all respects remain in force to the extent necessary to give effect to the exercise of the outstanding Pre-IPO Share Options granted under it prior to its termination. The outstanding Pre-IPO Share Options will continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme. No option shares have been granted under the New Scheme to any person since its adoption.

## Notes to the Financial Statements

Year ended 31 March 2005

### 22. RESERVES

#### (A) GROUP

	Share premium <i>HK\$'000</i>	Reserve arising from reorganisation <i>HK\$'000</i> <i>(Note i)</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	1,194	(24,317)	(4)	28,552	5,425
Loss for the year	-	-	-	(437)	(437)
2003 final dividend	-	-	-	(4,526)	(4,526)
At 31 March 2004	1,194	(24,317)	(4)	23,589	462
2004 final dividend proposed	-	-	-	(2,263)	(2,263)
At 31 March 2004	1,194	(24,317)	(4)	21,326	(1,801)
At 1 April 2004	1,194	(24,317)	(4)	21,326	(1,801)
Exchange difference	-	-	13	-	13
Loss for the year	-	-	-	(11,886)	(11,886)
At 31 March 2005	1,194	(24,317)	9	9,440	(13,674)

Note:-

- (i) The reserve arising from reorganization of HK\$24,317,000 represents the difference between the nominal value of the share capital of subsidiaries acquired and the cost of investments in these subsidiaries incurred by the Company in exchange thereof, and has been debited to the reserve of the Group.



## Notes to the Financial Statements

Year ended 31 March 2005

### 22. RESERVES (Continued)

#### (B) COMPANY

	Share premium <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	1,194	4,849	6,043
Profit for the year	–	2,504	2,504
2003 final dividend	–	(4,526)	(4,526)
At 31 March 2004	1,194	2,827	4,021
2004 final dividend proposed	–	(2,263)	(2,263)
At 31 March 2004	1,194	564	1,758
At 1 April 2004	1,194	564	1,758
Loss for the year	–	(850)	(850)
At 31 March 2005	1,194	(286)	908

### 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of operating (loss)/profit to net cash outflow from operations

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Operating (loss)/profit	<b>(11,188)</b>	533
Depreciation	<b>616</b>	402
Amortisation of intangible assets	<b>665</b>	157
Loss on disposal of fixed assets	<b>328</b>	–
Provision for doubtful debts	<b>446</b>	–
Provision for slow moving and obsolete inventories	<b>1,000</b>	–
Interest income	<b>(253)</b>	(557)
Interest expenses	<b>503</b>	365
Operating (loss)/profit before working capital changes	<b>(7,883)</b>	900
(Increase)/decrease in inventories	<b>(7,691)</b>	2,824
Decrease)/(increase) in accounts receivable	<b>4,720</b>	(5,271)
Decrease)/(increase) in other receivables, deposits and prepayments	<b>6,655</b>	(1,446)
Increase)/(decrease) in accounts payable	<b>1,176</b>	(3,274)
Decrease in other payables and accruals	<b>(1,067)</b>	(2,209)
Decrease in receipt in advance	<b>(691)</b>	(4,267)
Net cash outflow from operations	<b>(4,781)</b>	(12,743)

## Notes to the Financial Statements

Year ended 31 March 2005

### 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

- (b) Analysis of changes in financing during the year (bank loans)

	Bank loans	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at the beginning of the year	4,709	3,769
Payment of amounts borrowed	(15,075)	(3,761)
New bank loans drawn down	15,172	4,701
Balance at the end of the year	4,806	4,709

### 24. BANKING FACILITIES

As at 31 March 2005, the Group's banking facilities of approximately HK\$28,000,000 (2004: HK\$28,400,000) are secured and supported by the following:–

- (a) pledged deposits of approximately HK\$5,107,000 (2004: HK\$8,500,000); and
- (b) corporate guarantees granted by the Company and several subsidiaries of the Group of approximately HK\$32,000,000 (2004: HK\$31,000,000).

### 25. COMMITMENTS UNDER OPERATING LEASES – LAND AND BUILDING

At 31 March 2005, the Group had future aggregate minimum lease payments under operating leases as follows:–

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	852	726
Later than one year and not later than five years	250	478
	1,102	1,204

**26. CAPITAL COMMITMENTS**

During the year, the Group has the following capital commitment:–

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for Establishment of a subsidiary	<b>1,560</b>	–

**27. RELATED PARTY TRANSACTIONS**

During the year, the Group undertook the following material transactions with its related companies during the course of its business at terms of underlying agreements:–

	Note	Group	
		2005	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>
Rental paid to Directors	(a)	<b>127</b>	325
Rental paid to the related companies	(b)	<b>406</b>	617

Note:–

- (a) The Group leased an office premise from Mr. Hou Hsiao Wen, Eddie and Ms. Chung Yuk Hung, Yvonne (a former executive director of the Company resigned on 10 January 2005), both are executive Directors of the Company, in Beijing of the PRC for the Group's use.
- (b) The Group leased office premises from San Yee Investment Limited ("San Yee") and Dynatek Limited ("Dynatek") in Hong Kong at an annual rental of HK\$301,200 (2004: HK\$558,000), and from Ms. Tsou Lo Nien and Ms. Chung Po Chu in Shanghai, the PRC, at an annual rental of HK\$104,700 (2004: HK\$58,800), respectively. San Yee is owned by Mr. Chung Lok Fai and his wife, Ms. Tsou Lo Nien. Dynatek is owned by Mr. Hou Chung and Ms. Chung Po Chu. Mr. Chung Lok Fai was a former Director and a shareholder of the Company. Mr. Hou Chung, Ms. Chung Po Chu and Ms. Tsou Lo Nien are shareholders of the Company.

**28. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current year's presentation.

**29. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the board of Directors on 17 June 2005.

## Five Year Financial Summary

	2005	2004	2003		2002		2001	
	HK\$'000	HK\$'000	Continuing	Discontinuing	Continuing	Discontinuing	Continuing	Discontinuing
			operations	operations	operations	operations	operations	operations
			HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Results:								
Turnover	<b>66,986</b>	103,062	110,696	7,947	191,790	16,211	292,353	11,038
(Loss)/profit attributable to shareholders	<b>(11,886)</b>	(437)	10,138	(1,370)	7,730	320	22,025	2,068
Assets and liabilities								
Total assets	<b>50,600</b>	62,837	74,434	-	93,763	7,007	86,721	4,122
Total liabilities	<b>(19,013)</b>	(17,114)	(23,748)	-	(51,462)	(2,895)	(53,497)	(30)
Net assets	<b>31,587</b>	45,723	50,686	-	42,301	4,112	33,224	4,092

*Note (i)* A subsidiary which was principally engaged in software development acquired by the Group in September 2000 was disposed on 10 January 2003. Its operating results and state of affairs were grouped under rendering of services for the purpose of segment reporting as described in Notes 2 and 3 to the financial statements.